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S E C R E T SECTION 01 OF 02 MANAMA 000398

SIPDIS

NEA/ARPI, S/CT-TKUSHNER, EB/EPPD-CTHOMPSON,
EB/ESC/TFS-DNELSON AND IO/PSC-JSCHWEITZER
DEPARTMENT PLEASE PASS TO TREASURY-JZARATE AND OFAC-RWERNER

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TAGS: CVIS EFIN ETTC KVPR PREL PTER BA KTFN

SUBJECT: TERRORISM FINANCE: 2005 UPDATE NO. 2: BAHRAIN

REF: (A) STATE 32688 (B) MANAMA 282

Classified By: Ambassador William T. Monroe for reasons 1.4 (B) and (D)

11. (U) Per ref A request the following are Post's answers on Bahrain's counter-terrorist financing capabilities:

AMOUNT OF ASSETS FROZEN, FORFEITED OR SEIZED

12. (U) Bahrain has frozen \$10,334,641 in five separate accounts - two accounts of two entities under UNSCR 1267 and three accounts of one entity listed under E.O. 13224. No other actions have been taken against the designated parties.

13. (S) (Note. The five accounts the GOB has frozen are: one account of Yasin Al Qadi, one account of Lajnat Al Daawa Al Islamiya (LDI), and three accounts of Al Aqsa Islamic Bank. End note).

14. (U) The GOB currently freezes assets through a Prime Ministerial Edict under the authority of the Royal Prerogative. Under this blanket authority the Bahrain Monetary Agency (BMA) issues circulars on all names listed in the UN 1267 list requiring financial institutions to search for and if found, freeze accounts indefinitely. Names submitted by the US or other countries are reviewed by a committee and if there is sufficient evidence the BMA will issue a circular or contact specific banks that are likely to have assets. If these assets are found, they are frozen indefinitely.

15. (U) While the GOB uses this legal framework, their legal advisors fear a court challenge may result in the restriction of the Royal Prerogative; therefore, the GOB is pushing to pass two pieces of legislation: one to define terrorism and the other to outlaw terrorism financing. These laws would codify the power to freeze assets and explicitly fulfill the GOB obligations under the UN Convention on the Suppression of the Financing of Terrorism which they ratified in 2004 (Note: Bahrain is the only GCC country to ratify the terrorism financing convention. End note). With the passage of these laws, the GOB will be current with the Financial Action Task Force (FATF) Eight Special Recommendations on terrorism financing. The BMA is in the process of preparing regulations for the newest FATF Special Recommendation number nine on Cash Couriers.

IMPEDIMENTS FOR MORE COOPERATION ON CO-SPONSORING DESIGNATIONS

16. (U) While there are no legal impediments for cooperation with the GOB on co-sponsoring a designation, the GOB may require a higher standard of evidence to freeze jointly than required under US authority. The US requires only the "reasonable cause to believe" to designate under Executive Order 13224, while the GOB may require evidence that shows "probable cause" to participate in a joint designation. At a conference in Abu Dhabi in February between the GCC and the EU on terrorism financing, the BMA's legal advisor expressed concern that for designations not on the UN Security Councils 1267 Consolidated List the GOB may require a higher standard of proof to maintain a freeze.

GOB A POSSIBLE PROVIDER OF TRAINING AND TECHNICAL ASSISTANCE

17. (U) The GOB is willing to accept USG training and has been the recipient of various training efforts in the past. The GOB has received assistance from the USG on establishing its FIU - the Anti Money Laundering Unit - which is housed in the Ministry of Interior and is an active member of the Egmont Group. With an established FIU and Compliance Unit in the BMA, the priority for training should be detailed training on investigation of specific terrorism financing cases and training of compliance officers on reviewing and auditing bank records for suspicious transactions. The Compliance Unit at the BMA has participated in training to combating the financing of terrorism (CFT) at the US Treasury's Office of the Comptroller of the Currency (OCC). The Compliance Unit is sending another officer to the OCC for CFT training in May

12005. The GOB has also expressed a need for additional training on CFT issues for judges and prosecutors.

18. (U) The GOB may also be considered as a partner in providing technical assistance to other regional countries (Note. The BMA has already provided training for Iraqi bankers at the Bahrain Institute for Banking and Finance (BIBF). End note.) The GOB established the BIBF to train bankers and members of the finance industry and it regularly holds courses on money laundering. While post has not queried the BIBF, the USG could consider approaching the BIBF to offer expert speakers on CFT as part of existing money laundering courses or to assist in developing CFT training courses utilizing the BIBF facilities and staff.

19. (U) Additionally, Bahrain is the home for the new regional Middle East and North Africa Financial Action Task Force (MENA FATF). This organization will be reviewing its members, compliance with anti-money laundering and combating the financing of terrorism regulations. The USG could approach the MENA FATF as a potential venue for providing technical assistance for other Middle East and North African countries.

BAHRAIN'S RISK RANKING

10. (S) Post considers Bahrain as a low-risk country for terrorism financiers using banking services for significant fundraising. The BMA is the sole regulator of all financial institutions and requires suspicious transaction reporting. The BMA does compliance audits of financial institutions. While there are about 360 financial institutions in Bahrain, the banking community is close knit and it would be difficult to keep any large money laundering or terrorism finance schemes secret. However, the BMA has stated that because Bahrain is considered a clean financial sector, it is likely that Bahrain may be used as a transit point for laundered money or terrorism funds.

11. (S//NF) Post would rate Bahrain a medium risk for raising funds through charitable organizations. There is some concern about the regulation of the Islamic charities, particularly regarding their transactions overseas, and whether the BMA or the Ministry of Social Affairs are monitoring these activities (Ref B). Additionally, according to interviews done by the OFAC Attache, charities in Bahrain are raising money for many conflict areas including Palestine, Iraq (Fallujah) and Chechnya.

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